

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of Pacific Pipeline System LLC, Pacific Energy Partners, L.P. and Pacific Energy GP, Inc. for an Ex Parte Order Pursuant to Public Utilities Code Section 854(a) Authorizing Pacific Energy Partners, L.P. and Pacific Energy GP, Inc. to Acquire, Indirectly, Pacific Pipeline Systems LLC as Part of an Internal Restructuring Establishing a Master Limited Partnership.

Application 02-03-001
(Filed May 1, 2002)

O P I N I O N**1. Summary**

This application seeks authorization under Section 854(a) of the Public Utilities Code of an indirect change of control of Pacific Pipeline System LLC (Pacific Pipeline) through an internal restructuring establishing a master limited partnership form of ownership. The application is unopposed. The application is granted.

2. Description of Transaction

Pacific Pipeline is a public utility subject to the jurisdiction of this Commission under Pub. Util. Code § 216. Pacific Energy Partners, LP (Pacific LP), is a limited partnership formed pursuant to the Delaware Revised Uniform Limited Partnership Act. Pacific LP will be the sole owner of Pacific Energy Group LLC (PEG). Pacific Energy GP, Inc. (Pacific GP) is a Delaware corporation and the general partner of Pacific LP. The parties seek an order approving a change of control of Pacific Pipeline to Pacific LP and Pacific GP.

Pacific Pipeline is currently a wholly-owned subsidiary of PEG, which in turn is solely-owned by PPS Holding Company (PPS Holding). The Commission approved PEG's ownership of Pacific Pipeline in Decision (D.) 01-12-012. A diagram of the current ownership of Pacific Pipeline and other pipelines and energy-related companies that are not subject to the Commission's jurisdiction is shown in Appendix A.

Applicants propose to modify the existing ownership structure, but not the ultimate control of Pacific Pipeline, to establish a master limited partnership form of ownership. While the ownership structure of PEG, the parent of Pacific Pipeline will change, the ultimate control of the pipeline company will remain the same. PPS Holding, which presently holds 100% of PEG, will own 100% of Pacific GP, which under the limited partnership structure has sole responsibility for conducting Pacific LP's, and indirectly Pacific Pipeline's business and managing its operations. A diagram of the proposed ownership structure is shown in Appendix B.

Applicants state that the proposed change in control is in effect, largely administrative, and will have no impact on Pacific Pipeline's operations or on the general public. This change in control will not affect the jurisdiction or regulatory authority of the Commission over this pipeline. The primary purpose of this restructuring is so Pacific Pipeline can conduct an initial public offering.

3. Background

Pacific Pipeline is a Delaware limited liability company that owns and operates two separate crude oil common carrier pipelines under tariffs on file with the Commission. These pipelines are known as the "Pacific System" and the "Line 63 System," both of which extend from Kern County in the San Joaquin Valley to various oil refineries and delivery points in the Los Angeles Basin.

The Pacific System was approved by the Commission in D.96-04-056 and went into operation in 1999. Pacific Pipeline is authorized to transport an annual average of 130,000 barrels of crude oil per day on the Pacific System. The system operates pursuant to a market-based tariff authorized by the Commission in D.96-04-056 and approved by Resolution O-0028.

The Line 63 System consists of a main pipeline that is capable of shipping approximately 105,000 barrels of crude oil per day. In addition to the main pipeline, the Line 63 System also includes various gathering lines in the San Joaquin Valley and crude oil distribution lines in the Los Angeles Basin. The system operates as a common carrier pipeline under tariffs approved by the Commission in D.97-05-031 and adopted by Pacific Pipeline in Advice Filing No. 3, which was authorized by the Commission effective June 7, 1999.

Applicants state that while Pacific Pipeline's formal ownership structure would change under the proposed restructuring, there would be no change in the ultimate control over Pacific Pipeline, which would remain with PPS Holding.

Exhibits attached to the application describe the transactions in more detail and show that Pacific Pipeline, under the reorganization will continue to have the financial and technical qualifications necessary to continue its operations in California. These transactions affect only Pacific Pipeline's corporate parents and affiliates and not Pacific Pipeline itself.

Pub. Util. Code § 854 requires Commission authorization before the merger, acquisition or transfer of control of any public utility organized and doing business in California. The purpose of this and related sections is to enable the Commission, before any transfer of a public utility or its property is consummated, to review the transaction and to take such action as a condition of

the transfer, as the public interest may require. (San Jose Water Co. (1916) 10 CRC 56.) In addition, Section 854(b) requires many regulated companies to meet certain criteria before undertaking corporate restructuring.¹

Applicants state that the proposed ownership restructure will provide new source of capital and access to other capital markets as well as certain operating efficiencies afforded by Pacific Energy Group LLC acting as the operating company of all of the group's assets, both jurisdictional and non-jurisdictional.

No changes in existing services are proposed. There have been no protests to this application, and the contemplated transfer appears to be noncontroversial. There is a public interest in operating efficiencies and in new sources of capital. The application is granted, subject to the terms and conditions set forth below in Ordering Paragraph 2, 3 and 4.

In Resolution ALJ 176-3084, dated March 21, 2002, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were not necessary. Based on the record, we conclude that a public hearing is not necessary, nor is it necessary to alter the preliminary determinations in Resolution ALJ 176-3084.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

¹ Although past interpretations indicate that Section 854(b) apply to Pacific Pipeline, their total revenue last year was \$64 million, well below the \$500 million threshold for triggering Section 854(b).

Findings of Fact

1. Applicants seek approval pursuant to Pub. Util. Code § 854(a) of a change of control of Pacific Pipeline to Pacific L.P. and Pacific GP, with ultimate control continuing in the parent company, PPS Holding.
2. The restructuring, a modification of the existing structure, is largely, administrative and will not affect Pacific Pipeline's services or operations.
3. Pacific Pipeline's restructuring is primarily for the purpose of an initial public offering.
4. Pacific Pipeline conducted \$64 million in business last year (2001).

Conclusions of Law

1. The proposed transfer of control of Pacific Pipeline is in the public interest.
2. The application should be approved.
3. Section 854(b) would not be triggered by Pacific Pipeline's quality of business in California last year.

O R D E R

IT IS ORDERED that:

1. Pacific Pipeline System LLC (Pacific Pipeline) and Pacific Energy Partners, L.P. (Pacific LP) and Pacific Energy GP, Inc. (Pacific GP) are authorized pursuant to Section 854(a) of the Public Utilities Code to enter into the transaction, as more fully described in the application and its exhibits, by which Pacific L.P. and Pacific GP will acquire control of Pacific Pipeline.
2. Applicants shall notify the Director of the Commission's Energy Division in writing of the transfer of control, as authorized herein, within 10 days of the date of consummation of such transfer. A true copy of the instruments of transfer shall be attached to the notification.

3. Pacific Pipeline shall make all books and records available for review and inspection upon Commission staff request, and shall provide such financial information regarding its corporate parent and its parent's subsidiaries as is necessary for the Commission to regulate Pacific Pipeline.

4. The authority granted herein shall expire if not exercised within one year of the date of this order.

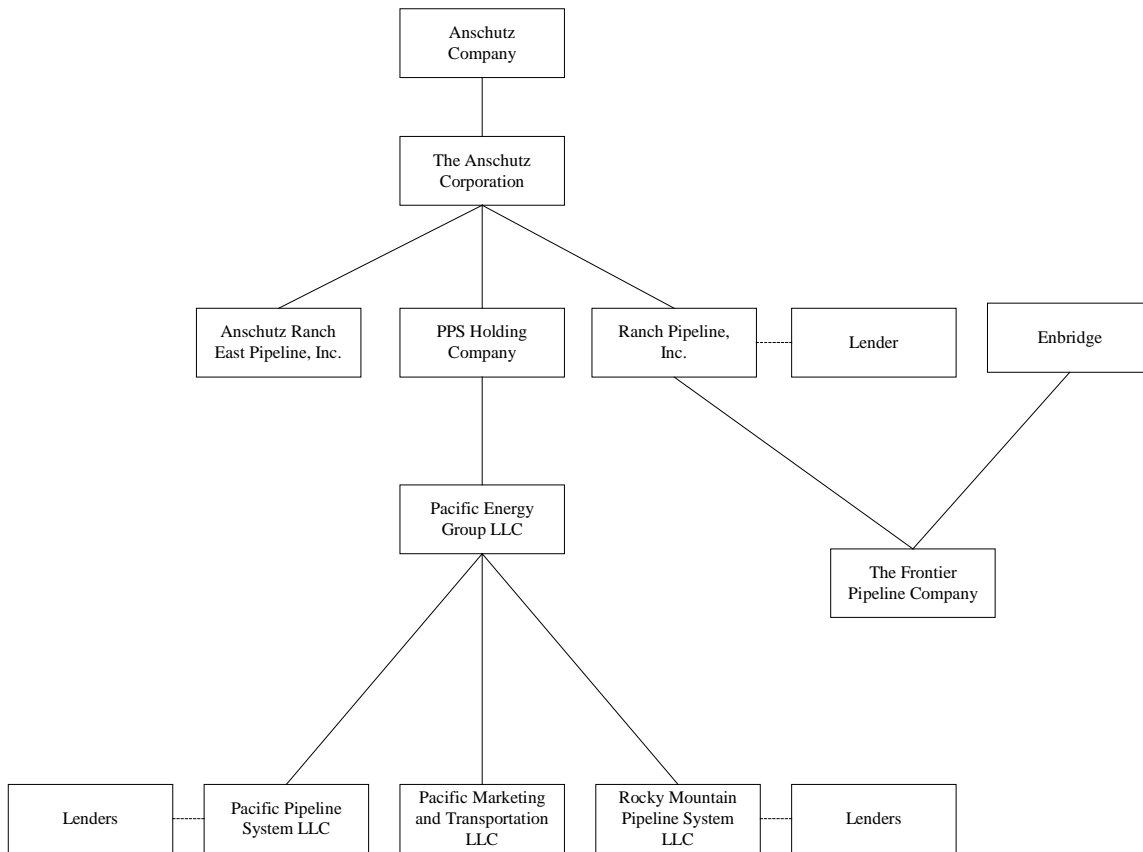
5. Application 02-03-001 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A

Current Structure



APPENDIX B

Resulting Structure

